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FM AMEMBASSY ANTANANARIVO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3929  
INFO RUEHFR/AMEMBASSY PARIS 0742  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHLMC/MILLENNIUM CHALLENGE CORP

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PARIS FOR D'ELIA  
TREASURY FOR FBOYE AND KTORP

E.O. 12958: N/A

TAGS: EFIN ECON PGOV MA

SUBJECT: Central Bank Issues Monetary Policy Statement

¶11. The Central Bank ran a short public announcement in several newspapers November 25 outlining monetary policy for the third quarter of 2006 (informal translation in para 3). According to International Monetary Fund (IMF) Resident Representative Pierre van den Boogaerde, the Central Bank's press statement is its first effort to explain or defend policy to the Malagasy people. Although the simple release contains little information, and would be lost on all but a tiny minority of elite Malagasy, the ResRep commended the Central Bank's transparency.

¶12. Post gives much credit to the U.S. Treasury Department's Technical Assistance missions, in particular the week Mr. Peter Nicholl spent with Central Bank Director General Rasolomanana in May ¶2006. In subsequent meetings with Central Bank contacts, Post has learned that Mr. Nicholl's suggestions on governance, transparency, and credibility have been carefully considered. EmbOffs will continue to follow the Central Bank's gradual reforms, building on the foundation and access supported by U.S. Treasury engagement.

¶13. Begin Text

#### Communication of the Central Bank Relative to Monetary Policy

As was expected for August, the annualized inflation rate decelerated during the third quarter to currently be 10 percent, due to:

- the clear improvement of external balances which stabilized the Ariary exchange rate,
- decline in increases of petroleum,
- good increases in domestic production.

Still, the slowing of inflation at the moment is less rapid, and will stay so for the coming trimester, caused by the strength of demand measured by the growth of monetary aggregates and particularly credit.

Having considered recent economic data and developments that could impact prices, the Madagascar Central Bank remains vigilant with regard to inflation. The Bank thus decided to leave monetary instruments at their current levels, including the "director rate" (base rate) at 12 percent.

Antananarivo, November 24 2006

The Madagascar Central Bank

End Text

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